

One Shilling net.

National Finance

In 1908

AND

AFTER;

BEING

A Review of the Past,
A Forecast of the Future,
An Appeal for True Accounts,
A Plea for Retrenchment,
A Protest against Debt,
And a Warning against False
Taxation ;

BY

Thomas Gibson Bowles.

"C'est la fiscalité qui a tué l'Empire Romain, la fiscalité pesant sur le possesseur."

(HISTOIRE GÉNÉRALE, LAVISSE & RAMBAUD.)

"While Hunter was flogging his boys unmercifully, he used to say, 'And this I do to save you from the gallows.'"

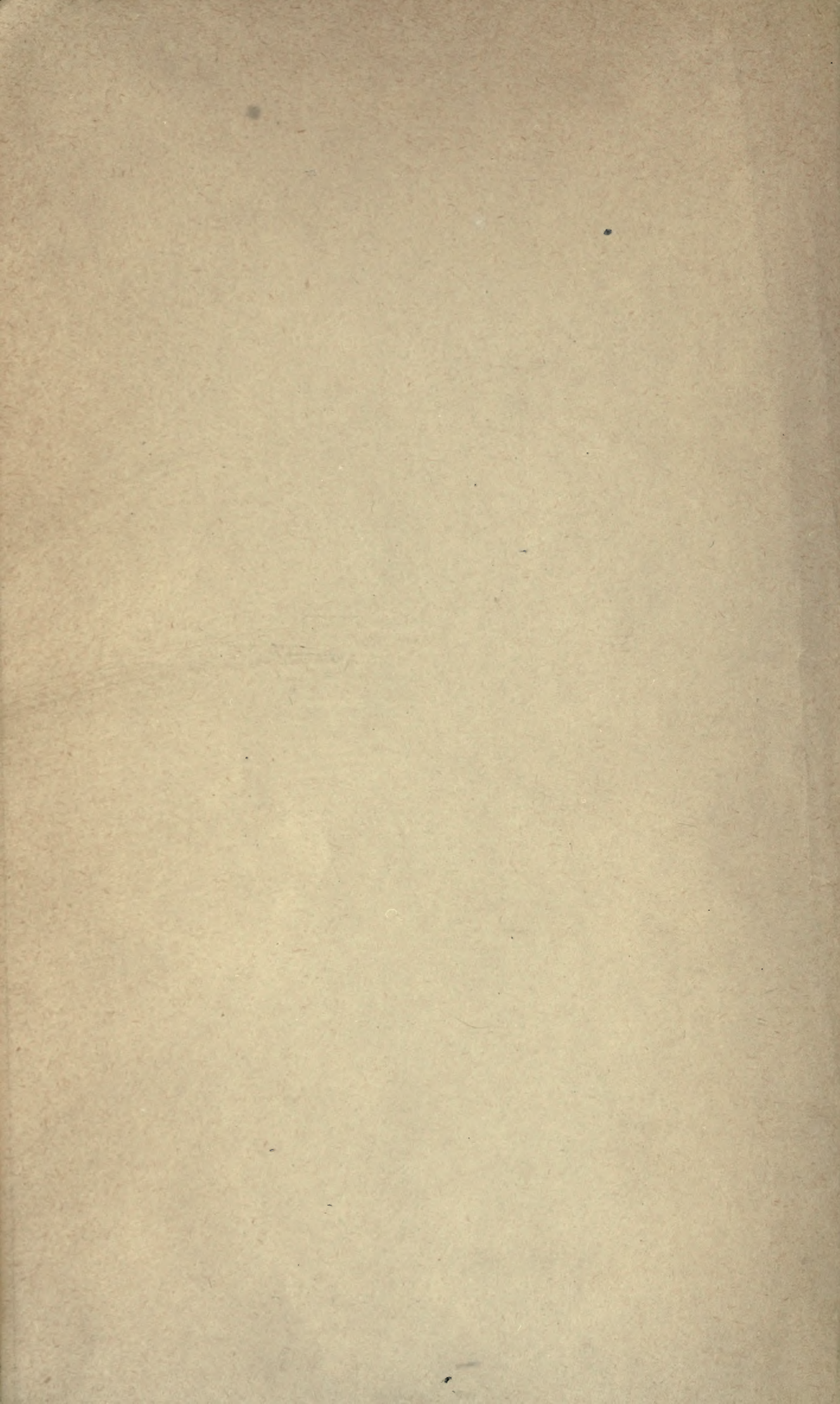
(Dr. JOHNSON, quoted by BOSWELL.)

London

T. Fisher Unwin

Adelphi Terrace





ECPF
B7875nd

NATIONAL FINANCE

IN 1908

AND

AFTER;

BEING

A REVIEW OF THE PAST,
A FORECAST OF THE FUTURE,
AN APPEAL FOR TRUE ACCOUNTS,
A PLEA FOR RETRENCHMENT,
A PROTEST AGAINST DEBT,
AND A WARNING AGAINST FALSE
TAXATION;

BY

THOMAS GIBSON BOWLES.

'''

"C'est la fiscalité qui a tué l'Empire Romain, la fiscalité pesant sur le possesseur."

(HISTOIRE GÉNÉRALE, LAVISSE & RAMBAUD.)

"While Hunter was flogging his boys unmercifully, he used to say, 'And this I do to save you from the gallows.'"

(DR. JOHNSON, quoted by BOSWELL.)

London

T. Fisher Unwin

Adelphi Terrace

[1908]

468961
4.12.47



Digitized by the Internet Archive
in 2007 with funding from
Microsoft Corporation

NATIONAL FINANCE
IN 1908
AND AFTER.

NATIONAL

STATE EXPENDITURE, LOCAL EXPENDITURE

						1894-5.	
						£	£
1.—National Debt	...	...	...	...	...	...	25,000,000
2.—Civil List, &c.	...	...	...	...	...	...	1,642,421
3.—Local Taxation (paid to)	...	...	...	...	...	...	7,013,541
4.—Crown Lands Management	...	...	...	...	...	...	105,967
5.—Lighthouse Expenditure	...	...	...	...	...	...	539,031
6.—Army Expenditure	...	...	...	...	...	20,598,151	...
Exchequer issues from Loans for Works	...	...	...	...	...	670,000	21,268,151
7.—Navy Expenditure	...	...	...	...	...	18,571,101	...
Exchequer issues for Works	...	...	...	...	...	50,000	18,621,101
8.—Civil Service Expenditure	...	...	...	...	...	20,095,426	...
Exchequer issues from Loans for Works	...	...	...	...	...	Nil.	20,095,426
9.—Revenue Departments Expenditure	...	...	...	...	...	13,312,187	...
Exchequer issues from Loans for Works	...	...	...	...	...	90,000	...
Post Office payments out of Receipts	...	...	...	...	...	1,820,258	15,222,441
STATE EXPENDITURE	...	...	...	...	...	...	109,508,091
LOCAL EXPENDITURE, UNITED KINGDOM	...	...	...	...	...	...	89,452,501
Total	...	...	...	...	...	...	198,960,591
						Deduct payment from State, from Consolidated Fund and Grants in Aid	10,914,221
AGGREGATE NATIONAL EXPENDITURE (STATE AND LOCAL)	...	...	...	...	...	...	188,046,361

1.—The items of Expenditure for 1894-5 and 1905-6 and 1906-7 are taken from the Appropriation Accounts for those years, which give the definite, finally ascertained figures. Those for 1907-8, not being yet finally ascertained, are the official estimates, and are but approximations to exactness. Those for 1908-9 are approximations even less near to exactness, for there are yet Supplementary Estimates to be presented for that year.

2.—The Exchequer Issues for Works do not always correspond with the sum actually spent by the Department in the year.

NATIONAL

STATE LIABILITIES, LOCAL LIABILITIES

						Lord Salisbury's & Mr. Balfour's Govt.	
						On 31st March, 1895. Price of Consols, 104½.	
I.—Funded Debt	...	...	...	...	...	£17,400,300	£586,015,919
II.—Unfunded Debt (so entitled)	...	...	...	...	...	52,492,709	...
Ditto (Terminable Annuities liability)	...	...	...	...	...	3,092,624	72,985,633
Ditto ("Other capital liabilities" or Works Loans)	...	...	...	...	...	...	...
STATE DEBT (FUNDED AND UNFUNDED), TOTAL	...	...	...	...	...	...	659,001,552
III.—Guaranteed Loans and Contingent Liabilities	...	...	...	...	...	70,589,496	...
Post Office and Trustee Savings Banks and Friendly Societies' Liabilities	...	...	...	...	...	Nil.	70,589,496
STATE LIABILITIES OF ALL KINDS, TOTAL	...	...	...	...	...	...	729,591,048
IV.—Local Authorities' Loans	...	...	...	...	...	...	277,190,081
State and Local Liabilities Total	...	...	...	...	...	...	1,006,781,129
Deduct Local Loans & Bonds counted twice, i.e., in III. & IV.	...	...	...	...	...	...	40,953,768
AGGREGATE NATIONAL LIABILITIES (STATE AND LOCAL)	...	...	...	...	...	...	£965,827,361
Exchequer Balances in hand	...	...	...	...	...	...	£6,300,826
Increase or Decrease during the year	...	...	...	...	...	...	+ 323,708

EXPENDITURE. AND AGGREGATE NATIONAL EXPENDITURE.

1905-6.		1906-7.		*1907-8.		*1908-9.	
£	£	£	£	£	£	£	£
...	28,000,000	...	28,500,000	...	29,500,000	...	28,000,000
...	1,624,166	...	1,679,012	...	1,971,714	...	1,700,000
...	11,058,058	...	11,379,651	...	11,155,379	...	11,290,000
...	154,901	...	...	...	146,920	...	147,000
...	500,996	...	536,834	...	513,422	...	510,000
32,043,809	...	32,072,563	...	31,042,466	...	30,826,804	...
1,250,000	33,293,809	300,000	32,372,563	300,000	31,342,466	300,000	31,126,804
34,861,442	...	33,262,649	...	32,911,046	...	33,942,003	...
3,926,015	38,787,457	4,081,750	37,344,399	1,150,234	34,061,280	897,000	34,839,003
29,788,842	...	30,741,185	...	32,492,752	...	32,240,653	...
199,000	29,987,842	213,000	30,954,185	364,000	32,856,752	338,000	32,578,653
19,680,412	...	20,217,270	...	21,083,821	...	22,107,118	...
750,000	...	1,380,000	...	1,020,000	...	1,250,000	...
2,553,908	22,984,320	2,622,805	24,220,075	2,699,909	24,803,730	2,111,000	25,458,118
...	166,391,549	...	166,986,719	...	166,351,663	...	165,659,578
...	162,436,029	...	*163,000,000	...	*163,000,000	...	*163,000,000
...	328,827,578	...	329,986,719	...	329,351,663	...	328,659,578
...	23,506,572	...	*23,379,651	...	*23,155,379	...	*23,290,000
...	305,321,006	...	306,607,068	...	306,196,284	...	305,369,578

* Estimated.

3.—There are interdepartmental services (such as those rendered by the Post Office to other Departments) which in strictness should be charged not to the Department rendering but to the Department receiving the service.

4.—To strictly complete the Account it would be necessary to add the value of Stores taken from stock in each year and not replaced—occasionally a large amount.

DEBT. AND TOTAL NATIONAL LIABILITIES.

ment, 2 July, 1895, to 5 Dec., 1905.		Sir H. C. Bannerman's & Mr. Asquith's Government, from 5 December, 1905.		Difference in 2 years, 1906 and 1908. + or —
On 31st March, 1906. Price of Consols, 90 ³ / ₈ .		On 31 March, 1908. Price of Consols, 87 ⁵ / ₈		
...	£634,047,429	...	£625,608,890	— £8,438,539
£65,713,000	...	£46,459,400	...	— 19,253,600
43,459,548	...	39,407,575	...	— 4,051,973
45,770,210	154,942,758	50,850,186	136,717,161	+ 5,079,976
...	788,990,187	...	762,326,051	— 26,664,136
157,686,714	...	167,394,022	...	+ 9,707,308
12,818,745	170,505,459	25,020,245	192,414,267	+ 12,201,500
...	959,495,646	...	954,740,318	— 4,755,328
...	564,645,200	...	*570,000,000	...
...	1,524,140,846	...	1,524,740,318	...
...	71,058,813	...	71,058,813	...
...	£1,453,082,033	...	£1,453,681,505	+ £599,472
...	£10,451,487	...	£8,918,961	...
...	+ 3,021,209	...	+ 1,986,359	...

* Estimated.

The reader is referred, for verification of the figures quoted, to the following official Returns and publications:—

NATIONAL DEBT. Papers Cd. 1222 of 1902, 2065 of 1904, 2516 of 1905, 2970 of 1906, and 4104 of 1908. Price 4½d.

FINANCE ACCOUNTS OF THE UNITED KINGDOM, 1907-8. Paper No. 192 of 1908. Price 5½d.

STATISTICAL ABSTRACT FOR THE UNITED KINGDOM, 1893 to 1907. C. 4258 of 1908. Price 1/8.

STATISTICAL ABSTRACT FOR THE UNITED KINGDOM, 1881 to 1895. Cd. 8209 of 1896.

APPROPRIATION ACCOUNTS, 1894-5, 1905-6, and 1906-7.

POST OFFICE SAVINGS BANKS. Papers Nos. 88 of 1905, 230 of 1906, 214 of 1907, and 209 of 1908. Price ¾d.

NATIONAL DEBT (Savings Banks and Friendly Societies). Papers Nos. 64 of 1906, 73 of 1907, and 70 of 1908. Price 1d.

GROSS DEPARTMENTAL EXPENDITURE. Paper No. 243 of 1905.

PUBLIC REVENUE (Interception), 1905-6, 1906-7, 1907-8, and 1908-9.

PUBLIC INCOME AND EXPENDITURE. Papers Nos. 144 of 1906, 132 of 1908. Price 1d.

PUBLIC INCOME AND EXPENDITURE (Fowler Return). Paper No. 258 of 1908. Price 5d.

GENERAL LIGHTHOUSE FUND, 1906-7. Paper No. 8 of 1908.

ESTIMATES, 1905-6, 1906-7, 1907-8, and 1908-9.

Previous Works on Finance by Mr. T. GIBSON BOWLES.

NATIONAL FINANCE: AN IMMINENT PERIL (1904). Published by T. FISHER UNWIN. Price 6d.

NATIONAL FINANCE IN 1905 (1905). Published by SIMPKIN, MARSHALL, & Co. Price 1/-

THE PUBLIC PURSE AND THE WAR OFFICE (1907). Published by T. FISHER UNWIN. Price 6d.

PREFACE.

THERE is nothing so essential to the welfare of a people as the prudent government of its Finances ; nothing so necessary as the establishment and strict adherence to a sound financial system ; nothing so likely to ensure a sound system as the keeping and publication of true and intelligible accounts. False, incomplete, or deceptive accounts, solemnly presented as true, full, and candid, are worse than no accounts at all. For they not only deceive the people at large ; they also evade that examination and comparison which financial students and experts would fain give to them ; and they defeat that constant, watchful vigilance without which neither political liberty nor financial safety can be maintained.

I may be permitted to believe that my previous efforts to win attention to the abuses in our financial practice have not been altogether without effect. Some of the abuses against which I first raised my voice in 1904 have been either abandoned or diminished. The "fixed charge" for the Debt, when I wrote in 1904, was £27,000,000, which I made bold to say was inadequate, and I urged that it should be increased "to at least £28,000,000." This was done in 1905-6. In 1906-7 the charge was further increased to £28,500,000, and in 1907-8 to £29,500,000, though in 1908-9 it is again reduced to £28,000,000. The consequences of the increase have been excellent. The Funded and Unfunded Debt has thereby been reduced very materially, especially the Unfunded Debt. Then there has been a very notably diminished recourse to Supplementary Estimates. Moreover, a new and insolent attack by the War Office on Parliamentary Control of Expenditure has been defeated. And, finally, a most important step has been taken towards remedying the false Accounts hitherto presented, by Mr. Asquith's decision to include in them the hitherto omitted £10,000,000 annually paid out of Imperial Taxation to Local Taxation authorities. One half of the claim made is thus satisfied ; though

there still remains to satisfy the other half relating to "Appropriations in Aid," which are of nearly equal amount. The National Accounts of Expenditure are therefore, though less false by £10,000,000, still incomplete, and therefore still false. It is much done, yet all too little.

In Expenditure there has been practically no Retrenchment. That, in 1907-8, is even more than it was in 1905-6. There is no trace of any effectual check having been put upon the Spending Departments—which means all the Departments. These are alike in this, that each one of them is honestly convinced of its own vast importance, conscious of being the sole depository of its own knowledge and administrative tricks, jealous of other Departments, and ambitious of salaries and C.B.s for its own admirable chiefs. To each member of it, the Department is a sort of divinity, only to be worshipped with sacrifices of public moneys. The well-understood duty of the Department is to get as much money as possible, and above all to spend the last penny that is got. Nothing must be economised, nothing must remain unspent, for whatever does so remain has to be "surrendered," to go in diminution of the National Debt, a ridiculous despised shadow, the greater or less bulk of which matters nothing. And what is worse is that anything so surrendered this year will probably be taken off the Department's estimates for next year. Their motto therefore is "No Surrender." This is the weakest part of our Financial system. Nor is it easy to strengthen. For the Department always beats you. It will wrestle with you all night for form's sake; but at the breaking of the day it will put the hollow of your thigh out of joint with a touch. One of the first things the Leader of a Party learns from office is that he had best not wrestle at all, but rather devote himself to all the other terrible difficulties of living from hand to mouth and from day to day, yet a few days longer. In this, therefore, the work of the Financial Reformer remains all to be done.

The mischief of Finance is that, as a rule, errors in principle, departures from sound practice, want of candour in Accounts, concealments, evasions, falsifications, nay, even corruption itself, pass unperceived, save by a

few, until a situation is reached when disaster is unavoidable. Then, and then only, do people in general become aware of the evil when it is too late to apply any remedy. And then, as all History shows, there ensue Panic, Rage, Revolution, and the destruction of Empires. All which timely attention to timely warning may prevent.

Such a warning seems now necessary—all the more necessary because of the general disinclination to heed it. Our Financial system as laid down by Mr. Gladstone over forty years ago is not indeed perfect, but yet sufficient, and, on the whole, better fitted to its ends and purposes than that of any other country. Our Financial administration—thanks to an admirable and honourable Civil Service—has, except in some rare instances in which error seems traditional, no trace of corruption. Our Ministers in point of honesty are as a rule above suspicion, and if in Finance their knowledge or ability is often questionable, there is the Treasury and the Civil Service generally to provide them with facts, ideas, and expedients. Conscious of all this, conscious too that they are wealthy and prosperous, and confident of their own future, the people at large care all too little for those National Finances which are at last their own Finances. And it is to-day, as it has generally been, easier to excite interest in the fate of an elephant or the antics of a dancer than in the future of the National Exchequer; though the future of all the people hangs thereon.

Yet the subject is most serious. It threatens to become most perilous. For our excellent Financial system is daily departed from; our national accounts remain incomplete, and therefore deceptive and false; and the administration of our Finances has now reached a point whence, according to all present appearance, it must go forward during next year to something approaching disaster.

The purpose of this Pamphlet is mainly to disclose facts and figures which are omitted or concealed, to set forth the whole Expenditure and Debt, to compare the real totals of recent years with each other, and shortly to point to the conclusions they suggest. As much of the Past is arrayed as seems necessary to illuminate the

Present and to suggest the Future, with some hope that the lessons afforded may be useful.

To bring together items of receipt and expenditure so as to show a complete account, both of Expenditure and of Debt, is not easy; for many of these items are buried in concealment, and have to be painfully dug out of official returns which in some respects are becoming less candid year by year, and which therefore render yearly harder the avoidance of errors in such a task. It has been performed, however, with care and with as much accuracy as is obtainable from accessible sources. In this the same method has been pursued as in my pamphlets published in 1904 under the title "National Finance: An Imminent Peril," and in 1905 under the title "National Finance in 1905," whereof this present writing is the natural successor. The result is to be found in the appended tables of Expenditure and Debt.

To array the facts thus, to point out briefly their significance, to enumerate the most serious faults in system or in practice, and to indicate the most pressing amendments needed in both, was the purpose of those pamphlets, as of this. If I have not followed them up annually during the last two years, it has been because there seemed no need to do so. During those two years Mr. Asquith has done much to avoid the errors and to correct the faults of his predecessors at the Exchequer. I hoped that a period of Parsimony, of Retrenchment, of diminution at once of Expenditure and of Debt, had set in, and that I might refrain from encroaching on the ground sacred to Chancellors of the Exchequer and Secretaries to the Treasury.

But events recent and impending have re-awakened all my anxieties, have thereto added others, and have persuaded me that I should do what I can to raise again a Note of Warning. It would seem that the reforming effort, strong in 1906-7, has spent itself in 1907-8; that the present financial year 1908-9 will show at its end on 31st March next, worse things rather than better; and that the next year, 1909-10, may only too probably be one of financial extremity and of false and dangerous expedients.

In this conjuncture I again raise my voice.

National Finance in 1908 and After.

FALSE ACCOUNTS.

NATIONAL Expenditure is an expression which has many official significations.

Sometimes it professes to be "the Gross Public Income "and Expenditure"* embodied in the annual Return made under the Sinking Fund Act, 1875—which being a statutory Return might be expected to be what it declares itself. And so it should be. But a long category of expenditures is omitted from it on the ground that the moneys whence they are met are not paid into and issued from the Exchequer—as according to the Exchequer and Audit Act, 1866, they one and all should be—and that they are therefore to be disregarded. Thus it omits, besides other items, all the issues to meet "other or Capital "Expenditure" (£2,800,000), the Expenditure for lighting the coasts (£500,000), and all the Expenditure out of Appropriations in Aid and payments out of receipts (£11,600,000). And yet it continues to call itself a Return of "the Public Expenditure." The Treasury argument runs thus:—"By the Act of 1866, all the 'gross Revenues' "and all 'public moneys' must be paid into the Exchequer. "Therefore, what is not paid into the Exchequer is not " 'public moneys.' Now, by virtue of Acts subsequent to " 1866, certain gross revenues and certain public moneys, "amounting in 1907-8 to nearly 15 millions, instead of "being paid into the Exchequer, are intercepted on their "way thereto, and applied directly to expenditure. So "these moneys are not paid into the Exchequer. There- "fore they are not either gross revenues or public moneys. "Therefore they are non-existent. Therefore they are "kept out of the account. They are, indeed, gross receipts, "and they are also public moneys; and yet they are not. "They are nothing, don't you see? If you don't, you are

* It is worth remark, as a sign of grace in the Treasury, that, in the return for 1908, the word "gross" is omitted.

“foolish, ignorant, and lacking in appreciation of that
“latest emanation of Supreme Wisdom, the Treasury
“mind.”

Milo, the Cretan, when he said “all Cretans are liars,” and thereby alleged at once that all Cretans were and were not liars, disclosed the Treasury mind which spends the eleven millions because they are public moneys, and omits them from the account because they are not.

And so this account gives what it calls the “Total Expenditure” for 1907-8 as £151,812,094.

Sometimes it means (as in the Fowler Return) what the Treasury supposes, or desires to be supposed, to be “the true cost of the Imperial Government so far as it falls on the general taxpayer or the community at large.” In this there is far more lopping and topping. In addition to the omissions from the account of the “Total Expenditure” above-named, further deductions are made by the million, and in the end the “total Expenditure” so far as it falls on the general taxpayer” figures for 1907-8 only at £137,317,044.

To the plain man the National Expenditure for the year seems to be all that is expended in the year, whether it comes from the year’s Revenue or from some other Revenue, whether it is or is not, paid into and out of the Exchequer, and also whether it does or does not, in the opinion of the Treasury, “fall upon the general taxpayer.” Estimated in this way, and omitting bookkeeping and financing entries, the total National Expenditure in 1907-8 was £166,351,663.

This last includes all the actual National Expenditure, so far as it can be tracked through accounts so defective as to suggest a purpose of deception. It includes not merely issues from the Exchequer, but also expenditure out of moneys which never reach the Exchequer, expenditure out of moneys raised by loan, and expenditure out of receipts by the departments from other sources than the Exchequer. It includes all. It is the one account required to show what the Public Service has cost in the year; yet it is the one account which will nowhere be found in any official publication.

Without such an account not only can no idea be

formed of the cost of the National Government ; but what is perhaps worse, no comparison can be made between its cost at one time and its cost at another. For the items omitted from the official accounts vary almost infinitely. In 1873-4, for instance, the sums intercepted for Appropriations in Aid amounted to only £1,215,065, but in 1903-4 they had risen to £12,394,721. It is manifest that to omit and disregard sums so vastly different, and then to compare only the remainders, is to falsify all comparison whatever.

As to what "falls on the general taxpayer or the "community at large," the remark must be made that all expenditure falls upon the taxpayer or the community at large sooner or later, somehow or other. It must ; for the State is a pauper, without a single sixpence beyond what it can extract from the community at large. But the origin of the money does not touch the point in question. That point is, not where the money comes from, but how much of it in all has been expended during the year on the National Services. That this should be—as now it is not—somewhere shown in an official account is most necessary. The Public Accounts Committee may be expected sooner or later to insist upon it.

AVOWAL.

The false, incomplete, and misleading character of the public accounts of expenditure is, indeed, now admitted. And in one respect at least it has been remedied by the inclusion in the accounts of sums hitherto excluded therefrom and treated as non-existent. During all recent years up to 31st March, 1907, certain vast sums of money levied by the State were paid directly over to the Local Taxation Account instead of being paid into the Exchequer. In 1906-7 they amounted to no less than £10,222,412, every farthing of which was ignored and excluded from every official account of National Expenditure. For years, in and out of Parliament, I vainly appealed to the Exchequer and Audit Act, 1866, and as vainly claimed that in accordance not only with that Act, but also with

common sense and fiscal propriety, these moneys ought to be paid into the Exchequer. The claim I made fell on deaf ears until the advent of Mr. Asquith, who has acceded to it. Thus in 1907-8 that vast sum is restored to the Exchequer receipts and issues, and the falsification of the public accounts is diminished by over ten millions. As I originated the demand for a return to financial truth and propriety in this respect, and was, so far as I remember, alone in urging it, I may be pardoned for feeling an especial satisfaction and an especial gratitude to Mr. Asquith for taking so long a step in return towards financial propriety and truthful accounting.

The other large (though not the only) item still abusively and deceptively omitted from the accounts is that of the Appropriations in Aid—that is, the moneys had by the Departments from such things as rents, sales of stores, and cognate receipts—which in 1907-8 amounted to £9,501,379. Their withholding from the Exchequer and their omission from the Accounts of the National Expenditure whereof they are a part, is as indefensible as was that of the Local Taxation moneys now brought in.

A recent statement, by Mr. Asquith himself, shows that he too is conscious that candour requires the inclusion of these Appropriations in Aid in the totals of Expenditure. It is so remarkable that I would briefly recall it. On the 2nd March, 1908, Mr. Asquith undertook to give to Parliament the “total outlay” on Navy and Army, not, as in the Budget statement, for the purposes of taxation, but in the sole interest of truth. It was a complete avowal of the falsehood of the accounts usually given. He did not, as is usual, take the voted or “net” expenditure, but (as he was careful to say) the gross expenditure, including and not excluding those Appropriations in Aid which I have always claimed, but hitherto unsuccessfully, should be counted in. He also took the “money spent from loans,” and, besides that, in the case of the Navy, the value in money of depleted and unreplaced stores. In short, he made up the account as it should be, but never before had been—except by myself—made up; and for the first time gave officially the true and total outlay on these two Services.

What clinches the case is the vast disparity between the Budget and the other official figures for these Services and the real figures revealed by Mr. Asquith. Between Mr. Asquith's figures and mine, indeed, the only material difference arises from the fact that he excludes, while I include, the items representing repayment of Works Act Debt, which he does not hold, as I do, to be part of the year's outlay.

Here, then, is the case :—

The ARMY AND ORDNANCE Expenditure was :					In 1904-5	In 1905-6	In 1906-7	In 1907-8
1. According to								
(a) The Budget Statement at the end of the year ...	}				£	£	£	£
(b) The Finance Accounts ...		29,225,000	28,850,000	27,765,000	27,115,000			
(c) The Statistical Abstract ; &								
(d) The Public Income and Expenditure Return ...								
2. According to the Fowler Return		28,238,476	28,041,449	26,878,477	26,187,118			
3. According to the Appropriation Accounts ...		33,411,841	32,043,809	32,072,563	not completed			
4. According to Mr. Asquith, 2 Mar., 1908 ...		36,300,000	32,800,000	32,050,000	30,691,000			
The NAVY Expenditure was :								
1. According to								
(a) The Budget Statement at the end of the year ...	}				£	£	£	£
(b) The Finance Accounts ...		36,830,000	33,300,000	31,434,000	31,141,000			
(c) The Statistical Abstract ; &								
(d) The Public Income and Expenditure Return ...								
2. According to the Fowler Return		36,202,213	32,284,188	30,319,023	29,926,597			
3. According to the Appropriation Accounts ...		38,293,738	34,861,442	33,262,649	uncompleted			
4. According to Mr. Asquith, 2 Mar., 1908 ...		41,400,000	38,300,000	36,000,000	34,750,000			

It will be noticed that the Appropriation Accounts make the nearest approximation to the truth—though even they omit the outlay from loans ; and that of the four entirely different—and all equally official—accounts, the only true one is that given by Mr. Asquith, which differs (to take the Navy, 1906-7) by nearly three millions from the Appropriation Accounts ; by over four and a-half millions from the Budget Statement and the Finance Accounts ; and by nearly six millions from the Fowler Return. This is the way we present our Accounts.

There is, indeed, a touch of humour in the fact that it is the same Mr. Asquith who in his Budget Speech of 1907 stated the outlay on the Army for 1906-7 to be £27,765,000, and who, in March, 1908, avowed the outlay

on the same Army for the same year to be £32,050,000; the same Mr. Asquith who on the former occasion stated the outlay on the Navy as £31,434,000, and on the latter occasion as £36,000,000. The larger totals in both cases are the true totals, and Mr. Asquith is the first Chancellor of the Exchequer who ever disclosed them. He would add to the great merit of this great service were he to move the Treasury, whereof he is still the First Lord, so to amend at least one of their accounts of National Expenditure as to show those true totals—this would give the Public one true Account whereby to correct the many false.

It was a most notable event that a Chancellor of the Exchequer should thus practically avow as false all the accounts of this outlay previously given, or anywhere to be officially obtained; and that he should substitute for the false figures hitherto given the true figures. It was, in fact, a free concession of the whole case I have for many years pressed. It was a condemnation of all the false accounts I have so long denounced, and the substitution for them, in respect of the Army and the Navy, of the true accounts I have so long claimed. Nor can any Chancellor of the Exchequer henceforth pretend that there is any other truth than this as to the expenditure of the two Services.

But what is more flagrant, and what would be even more humorous were the matter not so serious, is the avowal by the compilers of the "Statistical Abstract of the United Kingdom" that the authoritative statements therein of the "Total Expenditure chargeable against Revenue" have for years been false. The admission is made by altering in this year's issue of that official document, the sum given under that head for every single year since and including 1893-4. Last year's issue gave this total expenditure as £91,302,846; this year's issue gives it as £98,466,798. Again, last year's issue gives it for 1906-7 as £139,415,251; this year's issue as £149,637,664. The difference, of course, is the sum paid towards Local Taxation. Up to the present year this has always been treated as though it were no Expenditure at all, and has been therefore omitted; but this year, for the first time, it is admitted to be Expenditure, and is there-

fore included. This admission has involved doctoring all the fourteen years' accounts. In respect of this item every issue before that of this year is admitted to be false and misleading—false and misleading for each and every one of the fourteen years for which the figures are given. We are, indeed, invited to conclude that, because the whole series of figures has now been so hugely altered, we may hereafter accept them as complete and true. But, in fact, they still are neither. For while they are more complete and more nearly the truth, they are yet not completely so; for they continue to ignore and to exclude over ten millions of expenditure as real, and as wrongfully excluded, as that on Local Taxation.

We are, however, progressing. Part of the claim I have ventured so often to urge is now conceded. It is conceded in a way which admits the falsehood of every issue of the Statistical Abstract before that of the present year—a falsehood which betrays any person who may rely upon any such issue. A publication which plays such tricks might more fittingly be called the Fantastical Abstract.

I need not point out how completely these facts at once prove and condemn the misleading character of our National Accounts, nor how strongly they support the claim that these Accounts should be now so made up as fully, accurately, and truthfully to represent the facts.

EXPENDITURE.

The late Government of Mr. Balfour numbered twenty Cabinet Ministers. When, as repeatedly happened, their Chancellor of the Exchequer pleaded for Retrenchment, or stood out against increased Expenditure, they “gave him the usual dose of nineteen to one.” And, doing this consistently, they ran up the (real) total National Expenditure from the £109,000,000, at which they found it in 1904-5, to the £166,000,000 at which they left it in 1905-6—besides adding £130,000,000 to the Funded and Unfunded Debt, and another £100,000,000 to the guaran-

teed loans and contingent liabilities for which the State is liable.

The present Government came before the country pledged above all to avoidance of that enormous and unnecessary increase of the National Expenditure where-with they had justly reproached their predecessors, and as fully pledged to Retrenchment.

Mr. Asquith knows well where Retrenchment is most urgent and most easy. "The Army and Navy," said he in April, 1906, with his election pledges fresh upon him, "present fields of possible extravagance, and certainly not "of possible but of practicable reductions." He added, "There is no man in this House who entertains that sentiment more profoundly than I do myself," and promised "speedy and substantial steps" towards realising these practicable reductions.

It must be admitted that he has so far done but very little in redemption of these pledges. Inheriting for 1905-6 a (real) total State expenditure of £166,300,000, his Government have in two years ending 31st March, 1908, reduced it by a mere £40,000, and have left it probable that when the Supplementary Estimates for 1908-9 are added to the expenditure for that year, it will be swollen again so as to overpass the monstrous total from which they started. That we shall see early next year when these Supplementary Estimates are introduced; but meantime, it is the fact that the Ordinary Estimates for 1908-9 exceed the actual expenditure on the Services for 1905-6 by nearly £3,000,000; for while it is estimated that in 1908-9 we shall spend £900,000 less on the Navy and £1,200,000 less on the Army, the Civil Services and Revenue Departments are put down for £2,500,000 and £2,500,000 respectively—without reference to the issues from loans. There is no Retrenchment here. And it is again to be remarked that the Supplementary Estimates for 1908-9—which will make things worse—have yet to come.

We must indeed thankfully remember that, in the two years ending March, 1908, a far larger sum was applied to extinction of Debt; while on the other hand it is also

to be remembered that in those two years the Exchequer balances were diminished.

But the Spending Departments, so far from being restrained, spent as much, within a trifle, during the first of these two years as had been spent by them under the previous Government. In the next year they spent more; and in the present or third year they are estimated to spend yet more still, without taking into account any Supplementary Estimates yet to be presented. As to the fourth year, 1909-10, the Government is already so committed as makes it certain that the Expenditure for that year will be very far beyond anything ever hitherto dreamt of. Everything points to a vast and unexampled increase of Naval and Military Expenditure, besides that for Old Age Pensions and for other purposes.

This is not what the electors were led to expect, nor what they did expect. It is precisely the contrary.

DEBT.

In respect of the Debt, as of all other matters, the National Accounts are so presented as not to disclose but to hide the whole truth; by telling a part of it only, and leaving the rest to be laboriously extracted from a maze of figures, through which none but an expert can find his way—nor even he without risk of stumbling into one of the many pitfalls carefully provided for him.

Debt is a confession of inability to pay what we are nevertheless determined to spend. And it necessarily always costs more than paying down. For some £250,000,000 of our National Debt—all contracted, be it observed, since 1688—the Nation never received a farthing. It represented premiums on the loans and loanmongers' profits. No inconsiderable portion of the £620,000,000 which the great French War, 1793—1815, added to the debt was borrowed at over 6 per cent. Nor is it impossible we may again have to pay as much—if our Finances are left to drift as for many years they have done—in case another great emergency should arise similar to that with which Pitt had to deal.

The dangerous feature of our Debt is that no serious attempt is made to reduce it in times of peace and prosperity, and that it is added to on the smallest provocation. Leaving out of account for the moment what are called "Contingent Liabilities" (though many of these are very real), and reckoning only the Funded Debt, the Unfunded Debt, the Liability in respect of Terminable Annuities, and what are called "Other Capital Liabilities," the National Debt was—

	£	£	Increase or Decrease
			+ or —
On 31 March, 1848 ...	831,641,566		
On 31 March, 1868 ...	797,815,458	—	33,826,108
On 31 March, 1878 ...	770,921,944	—	26,893,514
On 31 March, 1888 ...	704,634,952	—	66,286,992
On 31 March, 1898 ...	638,817,507	—	65,817,445
On 31 March, 1908 ...	762,326,051	+	123,508,544

So that in 60 years we have only paid off £69,315,515 of debt, or, in the long run, little over one million per year off a debt varying in total between six and eight hundred millions.

"The 31st March, 1906," said Mr. Asquith on 7th May last, "may be said for all effective purposes to be the time "when we first became responsible for the conduct of the "financial affairs of the country," and in effect any estimate of the dealings with Debt of the present Government must start with the Debt as it stood at that date. Let us see how they stand.

	31 March, 1906	31 March, 1908	Increase or Decrease + or —
	£	£	£
Funded Debt	634,047,429	625,608,890	— 8,438,539
Unfunded Debt	65,713,000	46,459,400	— 19,253,600
Terminable Annuities ...	43,459,548	39,407,575	— 4,051,973
"Other Capital Liabilities"	45,770,210	50,850,186	+ 5,079,976
Total	<u>£788,990,187</u>	<u>£762,326,051</u>	<u>— £26,664,136</u>

Thus we find that the nominal capital of the State Debt, Funded and Unfunded, was in two years reduced by £26,664,136. This, if it stood alone, would represent a vast improvement on the general rate of decrease during the last 60 years; though even then it would be far from sufficient.

But it does not stand alone. Debt is Protean in its character. It assumes every kind of shape, and when it shrinks in one of its shapes it is only too apt to expand in another.

OTHER CAPITAL LIABILITIES.

Of all the National Debt, the most obnoxious and mischievous is that which is, in Treasury terminology, called "Other Capital Liabilities." It consists of loans contracted for the purpose of enabling the Navy, the Army, the Civil Service, and the Revenue Departments to incur expenses (almost entirely for Fortifications, Docks, Barracks, Buildings, and other works) beyond and in addition to those for which grants are made in the annual estimates. On 31st March, 1908, the amount of this debt was £50,850,186—Mr. Asquith's Government having in two years added to it by over £5,000,000. It is in truth a part of the Unfunded Debt, contracted by virtue of various Acts of Parliament, under which each of the Departments dipping into it pays annually an "annuity" representing interest and sinking fund spread over a term of years.

By the astute but reprehensible device of procuring Parliamentary assent to a vast total in one Act, the Government gets power to borrow the savings of the poor from the Post Office Savings Bank on its own terms, and to apply them to works the major part of which are in a few years found to be useless, but which, whether useful or not, should be inserted in and paid for out of the annual grants to the Crown. The system pursued evades all annual Parliamentary criticism and all effectual Parliamentary control; it is (as Mr. Asquith declared on 2nd March, 1908) "wasteful and extravagant," and leads to the undertaking of "works of an expensive and unnecessary character with no productive result." On these grounds it has been repeatedly condemned by the Public Accounts Committee.

If, however, there is any faith whatever to be kept, or any virtue whatever in Ministerial promises, this abusive

system, to use Mr. Asquith's words, "will now soon disappear." So, too, the late Government, by the mouth of Mr. Arthur Lee, then Civil Lord of the Admiralty, declared on 19th July, 1905, their "desire and intention to bring "the system of Loan Bills to an end at the earliest opportunity," and to bring any additional expenditure into the votes, in which Mr. Balfour subsequently corroborated him. With these pledges before it, the House of Commons may be expected to refuse assent to any proposals which would violate them, and to reject ruthlessly any attempt to renew this especially vicious form of borrowing. It will, perhaps, be called upon before long to do so; for the proposal has been put forward with signs of official inspiration, for a loan of this kind of £100,000,000 to be spent on the Navy.

As the Treasury in its Accounts veils this Debt by calling it "Other Capital Liabilities," so Chancellors of the Exchequer are accustomed to veil it by speaking of "Dead-weight Debt," and giving a total from which this particular Debt is omitted—as though it were in some sort (which it is not) less of a "Dead-weight" than the rest, or rather as if it were not Debt at all. In fact, however, it is, on account of all the incidents connected with it, the most mischievous of all the forms of the Debt, and the form to which the most strenuous resistance is therefore necessary. But unless we are to expect an unusually gross violation of pledges, we may feel sure that this kind of Debt will now "soon disappear," and will not be revived in any form.

"CONTINGENT OR INDIRECT" LIABILITIES.

In addition to the Funded and Unfunded Debt, the Terminable Annuities Debt, and the "other Capital Liabilities" which the Treasury alone appears to recognise as Debt, there are other liabilities, amounting to another £192,414,267, which are airily dismissed as "Contingent "or indirect." These are many and various. They are set forth in the list on p. 27 of the National

Debt paper (Cd. 4104 of 1908), where, however, they are not added up. Nor, indeed, could they well be, for while exact figures are given for the liability to suitors in the Supreme Court of Judicature, for the liability to Bankrupts' estates in the late Court of Bankruptcy, and, indeed, for every one of eleven out of the fourteen different liabilities there enumerated—while each of these eleven is set forth at an exact sum, no sum whatever is put down for the remaining three. These are the liabilities in respect of Post Office Savings Banks, Trustee Savings Banks, and Friendly Societies—which amount in the aggregate to more than five times as much as all the remaining eleven liabilities together. There is no more difficulty—nay, there is less—in arriving at their amount than there is in any one of the eleven other cases: and yet the eleven are disclosed and the three concealed and omitted. I have thought it right to remedy the omission by a lengthy calculation.

INSOLVENT SAVINGS BANKS.

The Government have taken charge of the savings of the poor in the Post Office Savings Bank, in the Trustee Savings Banks, and in the Friendly Societies' Funds, and have so invested them that in each one of the three cases the value of the Investments held is far less than the Government liabilities to the Depositors and Trustees. The total amount of these funds is enormous—£211,933,892—and the greater part of it is withdrawable at call or at a few days' notice. Yet the cash balance in hand is extremely small. And what is worse is that if all the securities held were realised at the price of the day, they would not produce, by many millions, enough to meet the liabilities. The deficiency, for which the Consolidated Fund is liable, is in effect an addition to the National Debt of a very momentous character. But it is concealed. No count is taken of it beyond a line (without any figures) in the Finance Accounts referring to it as a "contingent

“ liability ”—a phrase in this instance very misleading ; for the liability is not contingent at all ; it is very real and absolute ; and what is more, it is steadily increasing.

The Post Office Savings Bank is the most important of the three. At the end of 1907 it had open 10,692,555 accounts, with £157,500,077 standing to their credit. Its management for the year cost £585,603. Its balance sheet stands thus :—

	31 Decr., 1905 (Price of Consols 89 $\frac{3}{8}$)	31 Decr., 1906 (Price of Consols 86)	31 Decr., 1907 (Price of Consols 84 $\frac{1}{8}$)
	£	£	£
Liabilities to Depositors ...	152,243,209	156,142,546	157,659,802
Securities held, value ...	141,964,291	143,014,462	142,455,168
Deficiency ...	<u>£10,278,918</u>	<u>£13,128,084</u>	<u>£15,204,634</u>

It is to be added that on 31st December, 1907, there was a total Cash Balance in hand of no more than £344,577, representing only a fraction over two-tenths per cent. of the Bank's liabilities at call or at a few days' notice.

It will be observed that the deficiency is growing with alarming rapidity. It began in 1900, and has since rapidly increased. In December, 1907, it was more than half as much again as it was in December, 1905. What it will be at the end of December, 1908, remains to be seen. At this present writing (1st December, 1908) the price of Consols is 83 $\frac{7}{8}$, or $\frac{3}{8}$ less than on 31st December last.

But to come at the total amount of Debt under this head we must add the liabilities in respect of Trustee Savings Banks and Friendly Societies.

These are as follows :—

	30 Decr., 1905 Consols 89 $\frac{3}{8}$	31 Decr., 1906 Consols 86	31 Decr., 1907 Consols 84 $\frac{1}{8}$
	£	£	£
Post Office Savings Bank deficiency	10,278,918	13,128,084	15,204,634
Trustee Savings Bank deficiency...	2,324,973	3,080,669	9,509,958
Friendly Societies' deficiency ...	214,854	242,678	305,653
Total Deficiency of Assets...	<u>£12,818,745</u>	<u>£16,451,431</u>	<u>£25,020,245</u>

The total liability of the Consolidated Fund in respect of all three was, on 31st December, 1907, no less than

£211,933,892, while the securities held to represent the assets really represented, at the price of the day, no more than £186,913,646. It is a grave situation; but what is graver is the concealment in which it is wrapped.

The simple truth is that the Post Office Savings Bank and the other two together were, so far as their own resources go, insolvent at the end of 1907 by the amount of £25,000,000. But for every penny of that sum the Consolidated Fund is responsible; every penny thereof it must make good, somehow or other, to the Depositors. In fact, the £25,000,000 is a debt due by the State to the Depositors, an addition to the total Debt of the State.

Let it not be forgotten that this vast aggregate of £211,900,000 of the savings of the poor has been of most especial use to successive Governments which have been, and which still are, able to dip their hands into it at will, to take from it half a million or a million whenever they want it, to take it without formality on a mere Treasury promise, and to supply at leisure that grant of an annuity which is to represent its liquidation. If ever there were a portion of the Debt which can claim preference over all others, it is this.

The Savings Banks Depositors are indeed in no grave danger, since the Consolidated Fund is liable to them, and must in the last resort be drawn upon to make good the deficiency. But they are in some danger. For the vast sums due to them are payable to them on demand or at a few days' notice. There is but a very small sum of cash in hand. There is nothing at all corresponding to the "gold reserve" which every prudent banker maintains. There is nothing but a power of selling securities to obtain the gold required for payments demanded in gold—securities which if they had to be sold to a large extent must necessarily still further fall in gold value. If, then, at any time a large number of Savings Banks Depositors demanded their gold, the Post Office Savings Banks would quickly get into most serious difficulties. How such difficulties are to be provided against it is not easy to see, unless by setting up a gold reserve equal in proportionate amount to that which a prudent

banker would under the same circumstances keep.* For though in the last resort the Consolidated Fund is liable to make good any deficiency, that would not suffice to meet the immediate necessity for immediate payment in gold with which the Post Office Savings Bank would be confronted were anything like a "run" on it to take place. The danger is as much there as it is in the case of every other Bank. It is foolish to ignore it, or to pretend its non-existence. Prudence rather dictates providing against it. Let this be remembered: that if ever a "run" on the P.O. Savings Bank does come, it will probably come at a time of national distress, in Famine or in War, when our finances, already strained, would be ill able to bear such extra peremptory undeniable demands as would be made. In such a case the effect would be disastrous.

With the deficit yearly increasing, the risk increases of some deplorable event of that kind. It is not to be avoided by the absurd and pusillanimous secrecy of the Treasury, which paraded the figures so long as the Savings Banks were solvent, but which now (having smuggled through a clause in an Act of Parliament authorising it to suppress the information previously given) withholds the figures. That cannot suffice. The figures, if not given, can be worked out, as they have been for me. It is practically impossible to keep the depositors for ever ignorant of the fact that while the State has borrowed from them, and affects to be ready at any moment to repay to them £211,933,892, the assets from which the payment must primarily be made are but worth £186,913,646. It is impossible that, seeing a deficiency in the assets of £25,000,000, they should remain for ever content. It is quite possible that they may be seized with doubts, misgivings, panic. And the more the deficiency increases the greater is that possibility.

Unless, then, there is still in the Treasury the hope that Consols, instead of still going down, are to be expected shortly to go up by as much as 10 or 12 per cent. at least, the moment has arrived, when the Post Office Savings

* According to the 1906 address of the President of the Institute of Bankers, the average cash reserve of Bankers, which once had been only about 10 per cent., was then about 16 per cent. Now a cash reserve of only 10 per cent. for the P.O. Savings Bank, the Trustee Savings Bank, and the Friendly Societies, would be £21,193,000!

Bank, the Trustee Savings Bank, and the Friendly Societies should be put on a sounder basis.

As already said, the Depositors are, in the long run, in no great danger. To be precise, they are in no greater danger than a holder of Consols; for their security is the same as his. But that is no great consolation. For the holder of Consols has seen his security depreciate in ten years from an extreme highest price of 113 1/8 to an extreme lowest of 80 6/8, or in other words, has seen it lessened in value by nearly one-third. With an even step the security of the Savings Bank Depositors has diminished. They cannot possibly be held to be in the same position as when there was a surplus in the Savings Bank to meet their claims instead of a deficit.

For years successive Governments have used the savings of the poor as a convenient fund for financing themselves and their expenditure. These savings have been a Fortunatus' purse into which they have dipped deeply and without scruple. And now it is their duty to provide for its maintenance intact and for its preservation from panic depletion.

Meantime there is no escaping the fact that the Savings Bank Deficits are in fact a part of and must be added to the Debt, which is thereby increased by the sum of £25,020,245.

GUARANTEED LOANS.

As to the remaining portion of these "Contingent" liabilities, they are of the same nature as the bill a man has backed for his friend "as a mere matter of form," which so often turns out to be in fact a matter of cash. They may perhaps be escaped in whole or in part, though there are some, such as the liability in respect of Irish Land Purchase, as to which the probabilities seem to be the other way. But however that may be, they are all liabilities of the State, and as such must be taken into account.

The noteworthy thing is that these dangerous liabilities are increasing rapidly. They are a method of escape from

the importunate widows of politics. One pusillanimous Government after another adopts them. To the Transvaal, to the Local Authorities, to the Purchasers and Vendors of Irish Land, no Government is ready to give cash. But every Government is ready to give its credit—to back its friend's bill. And so there is now a "contingent" liability for the Transvaal of £33,333,859, for Local Loans of £71,058,813, and for Irish Land of £37,670,342, with more certainly and shortly to come.

The whole of these contingent liabilities, including that for the Post Office Savings Banks, were—

On 31st March, 1906 ...	...	£170,505,459
On 31st March, 1908 ...	...	192,414,267
Increase in two years ...	...	<u>£21,908,808</u>

The great, the vast increase in these contingent liabilities is due in the main to Mr. Balfour's Government, which had in this, as in other things, neither the ability to find cash nor the courage to refuse credit. They found the contingent liabilities on the 31st March, 1895, no more than £70,589,496 all told. They left them on 31st March, 1906, as much as £170,505,459, having therefore increased them in 11 years by as much as £99,915,963. In fact, the late Government more than doubled the State liabilities of this kind. Shiftless and thriftless, they turned in every difficulty to the device of backing a bill. They were perhaps not aware, or possibly they did not understand, that pledged credit wears away; that the more you pledge it for your friends, the less you have left for yourself; and that to guarantee Irish Land Stock paying $2\frac{3}{4}$ per cent., or Local Loans paying 3 per cent., is to depreciate the value of Consols paying only $2\frac{1}{2}$ per cent. under precisely the same guarantee.

Immediately before Mr. Balfour's Government (with Lord Salisbury then at its head) took office these Contingent and Indirect Liabilities and Guaranteed Loans were insignificant in amount compared with what they now are. And a deficit in Savings Banks Assets then

formed no part of them. This was soon altered for the worse. By December, 1905, when their tenure of office came to a close, Mr. Balfour's Government had far more than doubled these liabilities. The figures stand thus:—

On 31 March, 1905, Guaranteed Loans and other	£
Contingent or indirect liabilities were - - -	70,589,496
On 31 March, 1906, they were - - -	170,505,459
On 31 March, 1908, they were - - -	192,414,267

It will be observed that while under Mr. Balfour's Government these liabilities increased in eleven years by over 99 millions, or at the rate of over 9 millions a year, they have not done better under Mr. Asquith's Government, during which they have increased in two years nearly 22 millions, or at the rate of nearly 11 millions a year. The tendency already established to a careless, almost a reckless, addition to liabilities which escape the public eye, which the public in general is hardly aware of, and which, as a matter of settled policy, are kept shrouded in mystery—this tendency has been too strong to be corrected or abandoned. More friends' bills have been backed, more, as will be seen when we come to consider the future, yet remain to be backed. In fine, this particular category of National liabilities, instead of being put away and disregarded, should be foremost in the mind of every student of Finance; for the very reason that the liabilities are vague, indeterminate estimates at the best; that they are increasing at a most alarming rate; and that whether we shall or shall not be called upon to liquidate them depends upon others than ourselves.

AGGREGATE LIABILITIES OF THE STATE.

To arrive, then, at a notion of the aggregate liabilities of the State, and especially to arrive at any comparison of those liabilities at different dates, it is necessary to add these to the totals of Funded and Unfunded Debt, Ter-

minable Annuities, and "other capital liabilities." The following are the figures thus completed :—

	On 31 Mar., 1895	On 31 Mar., 1906	On 31 Mar., 1908
Funded and Unfunded Debt, Terminable Annuities, and Other Capital Liabilities ...	£ 659,001,552	£ 788,990,187	£ 762,326,051
Loans guaranteed by British Government and Contingent Liabilities	70,589,496	157,686,714	167,394,022
Post Office and Trustee Savings Banks and Friendly Societies' liability for defi- cient assets	Nil	12,818,745	25,020,245
State Liabilities total ...	<u>£ 729,591,048</u>	<u>£ 959,495,646</u>	<u>£ 954,740,318</u>

These completed figures put a very different aspect upon the Debt and its reduction, from the uncompleted figures usually cited—they bring forth facts of the greatest gravity.

First.—As to the Funded and Unfunded Debt :

Mr. Balfour's Government, in the
11 years from 31 March, 1895, to
31 March, 1906, increased it by... £ 129,988,635, or nearly 20 per cent.
(At the rate of nearly 2 per cent.
per year.)

Mr. Asquith's Government, in the
2 years from 31 March, 1906, to
31 March, 1908, decreased it by... £ 26,664,136, or 3·3 per cent.
(At the rate of 1·6 per cent. per year.)

But, secondly—taking not alone the Funded and Unfunded Debt, but all the liabilities of the State of whatsoever kind—which are the only complete figures, and alone afford therefore a complete comparison :

Mr. Balfour's Government in the 11 years increased them by	£ 229,904,578
Mr. Asquith's Government in the 2 years decreased them by... ..	£ 4,755,328

And if we come to the separate items, these are most instructive. Mr. Asquith has in two years diminished all the items that show ; but he has increased nearly all those that do not show.

Funded Debt, Unfunded Debt, and Terminable

Annuities he has diminished, to the total amount of £31,744,112.

But he has, in every other item, not decreased but increased the State Liabilities. The increases in "Other Capital Liabilities," in the deficits of the Post Office Savings Bank, the Trustee Savings Banks, and the Friendly Societies, and in Loans guaranteed by the British Government, amount to £26,988,784. Wherefore, while the total reduction he has effected in the Funded and Unfunded Debt, up to 31st March, 1908, is as much as £26,664,136, yet the final total reduction in the whole of the National Liabilities is no more than £4,755,328. This shows how different a result is reached by leaving out large items of Liability as though they did not count.

In dealing with variations in the Debt, the only safe way, the only correct way, is to take account of what has actually been done in its increase or decrease. That is the only actual thing; the rest is speculation. This is not always duly remembered. On 7th May, 1908, Mr. Asquith said, "On 31st March, 1906, our total capital liability was £789,000,000, and for [the same date in] 1909 it is estimated at £748,000,000. . . . In the second three years [1906-9] the reduction in round numbers was [sic] £41,000,000. In three years, to 31st March, 1909, we shall have paid off nearly £47,000,000 of National Debt; we shall in three years have reduced *we estimate*, the aggregate capital liabilities of the nation by £41,000,000."

This is an excursion into the doubtful future which cannot be accepted. For the 31st March, 1909, has yet to come, and what it may bring with it we cannot yet say.

To 31st March, 1908, as we have seen, the actually achieved reduction of the total Funded and Unfunded Debt and Terminable Annuities was £26,664,136, the actually achieved reduction of the total State Liabilities no more than £4,755,328. That the former total will be really reduced by 31st March, 1909, by a further £14,000,000 is anything but certain; that the latter will not be is quite certain. For there will certainly be Supplementary Estimates for 1908-9 presented in the beginning of next year. There will as certainly be no Old Sinking Fund

accruing out of a balance of Income over Expenditure. And it is possible that the Chancellor of the Exchequer may seek to raid the diminished New Sinking Fund, the balance of the reduced annual fixed charge of £28,000,000. In any case it is not allowable to take credit for reductions not yet actually achieved, and which may quite conceivably not be achieved by the date named.

But the point to be once again insisted upon is that it is altogether misleading and deceptive to compare only those portions of the Debt that have been reduced and to leave out of the comparison those portions that have been increased. In order to know where we stand, all must be taken together, and the only fair or real comparison is one made between the totals of all together. This is the comparison which, by completing the figures and ascertaining these totals, I have here made. As it stands, it is very honourable to Mr. Asquith; for it shows that while Mr. Balfour's Government increased the Funded and Unfunded Debt and the total State liabilities, Mr. Asquith has diminished the former during two years at the rate of £13,300,000 a-year, and the latter at the rate of £2,300,000 a-year. These are the actual achieved results, and they are creditable enough, without seeking to add to them results which are at present unachieved, and which may very possibly not be achieved at all.

For it is the immediate future of the Debt, as of the Expenditure, which gives so great cause for concern. There is every probability that in 1909-10 both will be increased to an alarming extent.

THE SINKING FUNDS.

It may perhaps be useful here to recall the fact that there are, in our system, two Sinking Funds: First, the Old Sinking Fund, consisting of the surplus, if any, of income over expenditure in any financial year ending 31st March, which the Treasury must issue, not immediately, but "in the course of the next Financial year," out of the Consolidated Fund to the National Debt Commissioners,

and these Commissioners must apply it "within six months after the date of issue thereof" in paying off "Debt," whether perpetual or terminable annuities, Exchequer bonds or bills, or advances from the Bank—but *not* in paying off loans borrowed to meet ways and means. Thus a realised surplus of income in the year ending 31st March, 1908, need only be "issued" or parted with by the Treasury by the 31st March, 1909, and need only be applied in paying off debt by the 30th September, 1909. The Treasury and the National Debt Commissioners may, in short, between them, postpone the application of the Old Sinking Fund to Reduction of Debt for a year and a half, though not for longer.

The second or New Sinking Fund is the balance of the fixed "Permanent Annual Charge" (so called, though nothing is less permanent or more often altered) which is left over after paying out of that charge the sums due in the year in respect of Interest and Management of the Funded and Unfunded Debt and of Terminable Annuities. This balance must be issued by the Exchequer to the National Debt Commissioners during the financial year in which it has accrued, and must be applied by those Commissioners to the redemption of Debt within six months of the end of that year. The amount of the balance left available for the New Sinking Fund thus manifestly depends upon the amount of the "Permanent Annual Charge." This by the National Debt (Sinking Fund) Act, 1875, was fixed for 1875-6 at £27,400,000, for 1876-7 at £27,700,000, and "during every subsequent financial year the sum of "£28,000,000." But in 1888 it was reduced to £26,000,000, in 1890 to £25,000,000, in 1900 to £23,000,000. In 1904 it was increased to £27,000,000, in 1906 to £28,000,000, in 1907 to £28,500,000, and in 1908 to £29,500,000; while in 1908-9 it is again to be £28,000,000.

But this fixed permanent charge which is so little fixed or permanent is not to be relied upon. The New Sinking Fund, like the Old Sinking Fund, has been repeatedly diverted from paying off Debt to paying for Expenditure. Even the Terminable Annuities are not exempt from tampering.

When the "fixed permanent annual charge" was £28,000,000 in 1905-6, the New Sinking Fund amounted to £3,449,338; when the charge was £28,500,000 in 1906-7, the New Sinking Fund was £5,982,622; and when the charge was £29,500,000 in 1907-8, the New Sinking Fund was £8,365,294. In 1908-9, be it remembered, the permanent charge is again reduced to £28,000,000.

LOCAL EXPENDITURE AND DEBT.

But State Expenditure and Debt are only half the story.

What has hitherto been dealt with is National Expenditure and Debt. Besides these there is Local Expenditure and Debt.

These have both increased most alarmingly since the Local Government Act of 1888, passed by Mr. Walter Long and Mr. Ritchie. The inevitable effect of that Act in increasing Expenditure and Debt (especially the latter) was pointed out at the time by various persons, among them by myself in an article in the *Fortnightly Review* of April, 1888. I predicted that the new system under which the County Councils were then established must inevitably lead to increased debt. "It will not be long," I wrote, "before the counties, which are now all but free from debt, are saddled with debts amounting to hundreds of millions, nor long after that before the Taxation thence resulting will become absolutely crushing, perhaps absolutely depopulating."

Warnings of this kind have usually fallen on deaf ears. But we may now, after an interval of twenty years, see how well they were justified.

The Total Local Expenditure of the United Kingdom in 1887-8 was	-	-	-	-	-	£ 66,804,286
But it had risen in 1905-6 to	-	-	-	-	-	162,436,029
And in 1907-8 it cannot be estimated at less than	-	-	-	-	-	163,000,000

The case of the Debt is that:—

The Total Local Debt in 1887-8 was	-	-	-	-	-	£ 223,261,945
But it had risen in 1905-6 to	-	-	-	-	-	564,645,200
And in 1907-8 it can hardly be estimated at less than	-	-	-	-	-	570,000,000

So that while the Local Expenditure has been considerably more than doubled, the Local Debt has been nearly trebled since the Act of 1888.

It is sometimes contended that Local Expenditure differs from National Expenditure, in that it is at least in part "reproductive," or profitable, and because it represents in part an individual service to the individual Ratepayer. This, it is sometimes claimed, makes Local less onerous than National Expenditure, and is a reason why it ought to be left out of account.

Such a claim will not bear examination. The Ratepayer, like the Taxpayer, must pay whether he will or no; the one can no more escape than the other; and whether the cash taken from him be called a tax and levied by the State, or a Rate and levied by the Locality, makes no difference to him. He has to add one to the other and must bear both. The fact that some of the burden is applied to purposes which yield a profit makes no difference. It is as true of both. The State has made a profit out of the Taxation employed in buying the Suez Canal Shares (a profit, in the 32 years since they were bought, of £27,522,960), which is as much to the point as any profits that may be made out of rates spent on tramways, light railways, gasworks, baths, or electricity supply.

The truth is that both the State and the Locality levy their contributions, whether Taxes or Rates, for no other purpose than to employ them in services to the general body of Taxpayers or Ratepayers. If, indeed, they were levied for any other purpose than this, they would be, so far as levied for any other purpose, not taxation at all, but Robbery. Whether it be the State taking cash for the Soldier, or the Locality for the Policeman; whether the State for Dockyards and Forts, or the Localities for Harbours and Docks; it is all taken for the reason that it is required for a service which the State or the Locality can alone, or can best, render. The services are presumed to be worth the money paid for them in every single case, excepting only that of the Post Office, which in 1907-8 was allowed to extract for its services £4,135,633 more than they cost, and to hand it over towards the cost of other services. But in the case of the Post Office services, as of all others, the service must be accepted. Nobody else than the State or the Locality is allowed to perform it. All the services are State or Local Monopolies. They

must all be paid for by Taxes or by Rates. The Taxpayer and the Ratepayer are, in fact, the same person, and whether he pays a Tax or a Rate, he pays a forced contribution which he cannot escape. His total contribution therefore is the Tax *plus* the Rate, his total indebtedness is the aggregate of the State Liabilities *plus* the aggregate of the Local Liabilities.

Let us, then, now see what these come to, and how they have grown. In arriving at the grand total it is to be remembered that the State contributed to Local expenditure in 1905 the sum of £23,505,572, and that of the Local loans outstanding in 1907-8, £71,058,813 is guaranteed by the State, so that the former sum figures both in State and in Local Expenditure, the latter both in State and in Local Liabilities. These two items do indeed form part, both of State and of Local Expenditure and Liabilities, and are therefore properly given in both. But when we seek to ascertain the total expenditure and liabilities of State and Localities together, they must be deducted, to avoid counting them twice over. The account then stands thus:—

As we have already seen :

The total State Expenditure in 1907-8 was	-	166,000,000	£
And the total Local Expenditure was at the least (as estimated from the last figures for 1905-6)	-	163,000,000	
		<u>329,000,000</u>	
<i>Deduct</i>	-	23,000,000	
Total Expenditures, State and Local	-	<u>£306,000,000</u>	

And now as to Debt. As we have seen, the State on 31st March, 1908, was liable for:—

1. Funded and Unfunded Debt	-	762,326,051	£	£
2. Contingent Liabilities (including that of P.O. Savings Banks and Local Loans)	-	192,414,267		
		<u>954,740,318</u>		
And the total Local Liabilities (estimating them from the last figures for 1905-6) are probably	-	570,000,000		
		<u>1,524,740,318</u>		
<i>Deduct</i> Local Loans guaranteed by State	-	71,058,813		
Total Liabilities, State and Local, of all kinds	-	<u>£1,453,681,505</u>		

Distinctions may indeed fairly be made between one kind of expenditure and one kind of liability and another—Expenditure on harbours, it may fairly be said, is better than expenditure on forts, on the Navy better than on the Army, on sewers and electricity better than on barracks and naval works—better because of more immediate, undoubted, and permanent service to those who pay. And so with liabilities. The liability for the Funded and Unfunded Debt is more absolute than that for the Greek guaranteed Loan, the Transvaal guaranteed Loan, the guaranteed Local Stock and the guaranteed Irish Land Stock, though it is not more absolute than that of the Savings Banks. But all that is expended is Expenditure, and all for which State or Locality is liable is a Liability. Although they differ, yet they must all be taken into account; and especially must they be so taken for the purpose of comparing one year with the other. They are all a burden on the Tax and Rate Payer. He alone does, he alone can, provide the money for them to the two magnificent but penniless paupers the State and the Locality. Out of taxes or rates every penny must come, whether for the actual present expenditure or for the no less actual but postponed expenditure represented by the Liabilities. The Tax and Rate Payer alone must, for he alone can, bear the burden. And to ascertain what the whole burden is, all the Expenditure and all the Liabilities must be brought into account.

Although the Tax and Rate Payer is apt to think much of those present Taxes and Rates which represent what he has now to pay for the present expenditure, and but little of what he owes, yet the Debt is really more important; for it represents Taxes and Rates as certain to be levied in the future as those of the present—the more dangerous because the more concealed. And these Debt Liabilities have increased beyond all belief.

The total Liabilities, State and Local together, were :

On 31 March, 1895	-	-	965,827,361
On 31 March, 1906	-	-	1,453,082,033
On 31 March, 1908	-	-	1,453,681,505

It would be impossible by dwelling on them to

add to the import of these tremendous totals. It should only be necessary to state them in order to breed the consciousness of their danger and a general determination that a stern check must be put upon the waste and extravagance that have led to the increase of Expenditure in which they originate. There is, indeed, to be gratefully noted the fact that during the two years 1906-8 the total has not materially increased. But will that be the case next year?

Here I would repeat the claim I have often before urged: that the Tax and Rate Payer is entitled to have laid before him every year, in an authoritative and complete form, not merely the State portion but also the Local portion of his expenditure and his liabilities. The annual State Budget statement of the Chancellor of the Exchequer is only half the truth. It should be followed by an annual Local Budget statement by the President of the Local Government Board. Thus, and thus alone, can the man who pays both for State and Local expenditure be kept duly and fully informed; thus, and thus alone, can the public mind be made to understand the whole truth.

THE FUTURE—1909-10 AND AFTER.

There can be no doubt now—there is no doubt among those who have informed themselves among the electors throughout the country—that the wanton extravagance, unbridled expenditure, and profligate increase of debt which distinguished Mr. Balfour's Government among all others, was one of the greatest of the causes that led to the ruin of the Unionist Party at the last General Election of 1906. This it was mainly, even more than the distrust of Mr. Balfour caused by his vacillations between Free Trade and Protection, which caused the loss to him and his Party of 212 out of 369 seats, and their transfer to one or other of the various groups forming the Liberal Party. The majority of 356 with which the Liberal groups met Parliament was the creation, to no small extent, of Con-

servative votes—votes given to these groups less with a desire to help them than to keep out Mr. Balfour and his allies. The Determining Elector—the commonplace, moderate, sensible, timid man of Tory Temper and Liberal Leanings, who votes on the merits rather than for the Party, and shifts with the merits from side to side—was alarmed at a leader who did not know his own mind on Trade Policy, and whose mind on Finance was as profligate as could be. On the other hand, the Liberal groups, however much they might differ on all else, were united in promising Retrenchment, reduction of Debt, and firm adherence to Free Trade. Wherefore the Determining Elector went over to them, and gave them the biggest majority recorded in our history.

The Determining Elector expected above all of the Party he had put into power not only a vigorous defence of Free Trade against the assaults of the Protectionists, but also a reduced Expenditure and a reduced Debt, effected by means of Retrenchment and Parsimony. He has been disappointed. And he is beginning to show his disappointment, and will show it more and more if things go as they are going and promise to go. The Bye-elections are not without significance. During 1906, the first year of their power, the Government lost only one seat out of 22 bye-elections; during the second year, 1907, they only lost one out of 27; but in the third year, 1908, as yet uncompleted, they have lost 7 out of 26. In all, out of 75 bye-elections, up to December, 1908, they have only lost 9 seats; but 7 out of the 9 losses have occurred during the first nine months of the third year, as against two during the whole of the two preceding years—which is significant. So far as it means anything, it means that the Determining Elector has lost confidence. As indeed he has. For, having taken patience during two years, he now sees the fight for Free Trade neglected, Mr. Asquith's laudable effort at improvement of our Finances apparently exhausted, Retrenchment overwhelmed by new Expenditure in new fields as well as old, and a financial prospect opened up for the future which fills him with alarm. Neither at future bye-elections nor at the next General

Election are Conservative voters likely to repeat the votes for Liberals which they gave in 1906. Whether the remainder of the Determining Electors will do so depends upon the present and the immediate future, and most especially upon the Finance of next year. Should this be alarming to the Determining Elector, the Government may count upon disaster at the polls nearly equal to that which overtook Mr. Balfour, and perhaps greater. And the longer the polls are postponed the greater the disaster will be.

At present the prospect is deplorable.

Judging by the Revenue Receipts so far, there will be in 1908-9 a serious realised Deficiency of Income to cover Expenditure. For the Exchequer Revenue to 28th November was but 81 millions out of an estimated total of 154 millions, as compared with 86·7 millions in 1907 out of a final realised 156·5 millions. If the same proportion be kept, the realised Deficit on 31st March, 1909, would be over £8,000,000. The greater portion of the year's Income-Tax, indeed, yet remains to be paid, but neither that nor the Death Duties can be expected seriously to diminish the Deficit. But both these taxes are now largely the sport of chance, and they may, therefore, possibly give unexpectedly good (or bad) results in the year's last weeks. If generous allowance be made for that chance, we can scarcely expect the realised Deficit for 1908-9 to be less than £6,500,000.

Whatever the Deficit is, it must be provided for during the year, either from Exchequer balances or by some one of the forms of borrowing. In either case it means an addition of so much to the Debt; for just as increase of Exchequer Balances is virtually the same as a diminution of Debt, so their decrease is virtually the same as an increase of Debt.

But that is not all. A realised actual deficit on the Income and Expenditure Account of 1908-9 means that with the same taxes and the same expenditure there will probably be a similar Deficit to be looked forward to in 1909-10. If, indeed, trade is better in the latter year, the Deficit will be less, because the yield from

Customs, Excise, Stamps, and the rest will be more ; but if, on the contrary, trade becomes worse, then the prospective Deficit will be greater. In fine, the Budget of 1909-10 must take into account and provide for, not one deficit but two ; not something between six and seven millions as the case may be, but, so far as can at present be judged, probably something between at least ten and twelve millions.

We have not yet, however, got to the end of the story. There is an article in the *Fortnightly Review* for October, signed "Excubitor," which, both in its peculiar accuracies and also in its peculiar inaccuracies, betrays itself as the work of an Admiralty-inspired writer, and which, by the way, has several features of family likeness to an article of similar trend in the *Quarterly Review* for October. "The money necessary for the Fleet must be obtained at all costs," says "Excubitor," and he suggests that there is no other way of raising the money than by "a short-dated loan." But the point of his article is that he demands as "the money necessary" an expenditure during six years of $13\frac{1}{2}$ millions a year on new ships. "This," he says truly enough, "is £6,000,000 more than was voted 'this year' (1908-9). Anything less than this would, he thinks, be 'an absurdity.'" If that be so, we may expect that the advocates of increased Naval Expenditure will not be content to allow the absurdity to continue into the next financial year ; that they will press their demands, and that the least we can expect is a claim for this extra six millions in the Estimates for 1909-10. ||

A word seems called for here.

Mr. Asquith, himself one of the Blue-Water school, yet teased by the Blue-Bottle school, has apparently surrendered to the Blue-Funk school. For he has announced his acceptance of the doctrine that British naval power must be kept equal, in "capital" ships, to the combined power of the two next strongest naval States in the world, and with a 10 per cent. margin to boot.

I hold this doctrine to be preposterous.

To increase our naval force as a probable enemy increases his would be only prudent. But to increase it as

a probable ally increases his—and to decrease it as he decreases—that is absurd.

To take our probable friends on the one side and our probable enemies on the other, and to make up our own and our friends' strength to double that of our enemies' strength, would be reasonable. But to arm not alone against our enemies but also against our friends, is at once a contemptuous sign of distrust of them and the beginning of an illimitable and ruinous expenditure.

This is to be done, moreover, when we are on better terms than we have ever during our history been with every State (Germany admitted, for the sake of argument, as an exception) having a fleet—with the United States, with France, with Japan, with Italy, Spain, and Portugal, and even with Russia. Yet one of these is the second State against whom we are to arm, on the ground that one of them may prove an enemy too. We are to proclaim that we dare not trust any one of them—a strange comment indeed on our understandings and alliances.

To reject Reason and Probability in our naval preparations is to reject all limits whatever. If we are to arm only against those whom it is reasonably probable we may have to fight, we need do but little; if we are to arm as well against those whom it is not reasonably probable we may have to fight, then it is not a two-power standard but an all-the-world standard that must be set up.

But in fact there is no fear either affected or felt of any other power than Germany. And to be afraid of Germany, over whom we already have so vast a superiority in men, in the seamanlike quality of the men, in ships and in shipbuilding power—that is as pusillanimous as it is discreditable. Rather should Germany be afraid of us. As indeed she well may be when she sees stations prepared at Rosyth and Dundee which can only be meant for use against her, all the vast British fleets recalled from every quarter of the world and kept over against her coasts, and the British position strengthened by conventions and understandings with Italy, Spain, Portugal, France, and Russia—all directed, as Germany not unnaturally believes, against her.

But it appears that the Panicmongers have so frightened the Ministers that all pledges of Retrenchment are to go by the board, and that the Blue-Funk school is to be placated with an extra expenditure of six millions to make us safe against our friends as well as our enemies.

Nor is this all. The Old Age Pensions for 1909-10 will need (as Mr. Masterman, Secretary to the Local Government Board, says) "six or eight millions" *—that is, at least six, and far more probably eight, millions of new extra expenditure.

The Irish Land Purchase Finance has broken down as completely as I ventured to predict it must when, five years ago, Mr. Wyndham, with a light heart and a child-like belief in issues at 95, introduced it. Yet it cannot be allowed to fall through, for the country is pledged to it. But if that be the case, then there must be provided for this too in 1909-10 a further considerable sum which I will not venture to estimate.

Finally, it must not be forgotten that five days after the expiration of that same year, 1909-10 (*i.e.*, on 5th April, 1910), there has to be, and must be, paid off in cash and at par whatever then remains of the 1900 thirty-million War Loan, whereof there was outstanding on 30th September last £22,326,602, a total which will probably not be materially reduced before the day of payment comes, for it is mainly held by the outside public, who are content to keep it. This is the loan which was undertaken in the belief that Mr Chamberlain's pledges of a contribution to that amount from the Transvaal mine-owners would be fulfilled—pledges more completely falsified and their falsification more lightly excused than any in history. The loan is indeed one of those short loans which are said to "provide for themselves," but it can only be provided for either by the addition of a similar sum to the Unfunded Debt at an appreciably higher rate of interest than the $2\frac{3}{4}$ it now bears, or else by some other form of borrowing which must replace it to the last farthing by the last hour of that 5th of April.

* The number of persons over 70 in the United Kingdom is estimated (Mr. Lloyd George, 30th November, 1908) at 1,275,000, whereof 287,000 are in receipt of Poor Law relief, leaving 988,000 pensionable, of whom 653,080 had claimed Old Age Pensions on 21st November, 1908. Pensions for all these claimants, at £13 a year, would represent £8,490,040 annually, besides the cost of administration.

To recapitulate :—The situation on 31st March, 1909, will be this :—

(a) A realised deficit for the then ending year of, say ...	£6,500,000
(b) A similar probable deficit for the ensuing year, 1909-10, of, say	4,000,000
(c) Increase in Navy Estimates for New Construction	6,000,000
(d) Increase of Expenditure for Old-Age Pensions, say	7,000,000

Besides which there must be—

- (e) An Increase of Expenditure in respect of Irish Land Purchase.
- (f) An Increase of Expenditure on Education.
- (g) An Increase of Expenditure on the Unemployed ; and
- (h) An Increase of Expenditure to replace the War Loan.

All this is new, extra money to be found. It can scarcely be less than 20 ; it may approach 30 millions.

New Taxation or New Debt alone can fill the gulf thus opened. Whether it is one or the other, or both, and if the latter in what relative proportions, will depend upon the ability, the resource, and the courage of the Chancellor of the Exchequer.

UNEQUAL TAXATION.

New Taxation, to a great extent, there certainly must be. What sort of new Taxation then are we to expect ? There is little doubt as to the answer. It will not, says Mr. Masterman, be “obtained from increased “taxation of the working people.” It will be of the kind that will mainly or wholly fall on “the twelve rich men,” whom Mr. Lloyd George says he can name, “whose average “income during the worst days of depression would suffice “to maintain in comfort during the whole of one month “at least 50,000 workmen and their families”—on those twelve men and on others like them, with incomes somewhat smaller but still relatively large—it will be taxation at different and unequal rates, graduated or differentiated taxation in some one of its new varieties ; all of them alike in this, that they seek to extract not only a larger contribution, but also a larger proportion of contribution, from the richer man, and especially if his riches have not been “earned” by himself. The Finance Act, 1907, applied

this method of levy to Income-Tax, and enlarged it in the Estate Duties.

The Death Duties have, by this Act, been so recast that the largest estates pay as to a portion of them as much as 15 per cent., so that if there be also a Legacy duty of 10 per cent., and a Settlement Estate duty of 1 per cent., a property may be charged altogether with a possible—though rare—aggregate duty of as much as 26 per cent. all told. On the other hand, the smallest estates pay no more than one-half per cent. all told.

The same method is applied by the same Act to the Income-Tax. The tax varies from seven-hundredths of a penny on the smallest Incomes Taxed to twelve hundred hundredths of a penny on the largest, the differences of rate of tax being fixed in a purely arbitrary manner. For incomes under £160 there is total exemption from the tax, for those between £160 and £700 partial exemption, and for those whose "earned" income does not exceed £2000 another partial exemption for that income. The whole effect whereof was that in 1906-7, while the total Income brought under review was £943,702,014, there was taxed of it only £640 048,238, so that very nearly one-third of the total known income escaped taxation, besides all the unknown (because untaxed) income below £160. And the result was that the Tax of one shilling in the pound only produced an all round tenpence and six hundredths of a penny in the pound. One-sixth of the tax, in short, was virtually remitted. Or to put it in another way : those who paid in full had to pay more than their share because of those who paid less than their share.

In truth neither the Death Duties nor the Income-Tax is any longer a tax at all in the strict and only proper sense of the term. For a tax means a rate of contribution, while here there are various rates, or in other words various taxes, the lower for those who pay least, the higher for those who pay most.

Graduated or differentiated taxation has been advocated and adopted as being on the whole what is called "fair." It is held to be fair that, out of a great pile or a great income, a greater proportionate share should be taken by the State than out of a small pile or a small income.

Whether this is indeed fair need not now be inquired. But what is worth considering is whether it is accepted as being fair by all concerned, by those who pay at the higher as well as those who pay at the lower rates. If not; if those who are called upon to pay at the higher rates hold it to be unfair and believe themselves to be treated with injustice, then they will try to avoid or evade payment. They will not succeed in all cases, but if they do succeed in a few, the injury done to the Revenue will be great, since it is precisely those who thus avoid or evade the tax who are required individually to pay incomparably the largest sums. Moreover, if this sense of injustice exists at all, it exists among those who have the greatest facilities for adopting methods either of evasion or of avoidance which will enable them to escape payment. The risk to the Revenue is the loss not of the smaller but of the greater contributions. It is not the man who pays £1 Income-Tax on £180, but the man who on an income one hundred times as much pays not one hundred but nine hundred times as much (or £900)—this is the man, if any who, thinking himself unjustly treated, is likely either lawfully to avoid or unlawfully to evade an impost he thinks unfair and knows to be onerous. And whereas the loss to the Revenue can in the one case only be £1, in the other it may be anything up to £900.

So too with Death Duties. The temptation to evade payment of one-half per cent., or 50s. on £500, is small. The temptation to avoid payment of $4\frac{1}{2}$ per cent., or £2250 on £50,000, is far greater; and greatest of all the temptation to avoid payment of 10 per cent., or £100,000, on £1,000,000.

It is true that, in actual fiscal life, the experience of the Tax Collector is that there are more who yield to the small temptation of withholding a contribution of £1 and 50s. than to the greater temptation of withholding £900 or £2250. That is mainly because there are infinitely more of them. It is also partly because, the very principle of graduated taxation being that the small contributor should pay very little, he easily concludes that he should pay nothing. But even though the smaller contributors withholding their contribution were a hundred times as

numerous as the bigger contributors doing the same, the State would yet lose much revenue. This is the inevitable effect of differentiation in taxing.

It is not a question of relieving the poor from taxation. That all would agree to, that all have always agreed to. The exemption from all taxation of so small an income as £100 a year, or so small an estate passing by death as one of £100 in value, would be questioned by none; for a man with an income no greater than that, or leaving an estate no greater than that, may generously be supposed to be "poor," or at any rate so poor that all the taxpayers richer than he should bear his burden for him. But Graduation or Differentiation as preached and practised is not that, but quite another thing. It is a system which exempts, not alone the poor man of £100 a year, but the man of £700 a year, and even the man of £2000 a year, from his proportionate share of Income-Tax, in order to put it on those of greater income. It exempts not alone the estate of £100, but the estate of £10,000, of £25,000, of £50,000, nay, of £150,000, from their proportionate shares of Estate Duty, in order to put them on those of greater value. To charge 5 per cent. on one rich man's estate of £75,000 and 10 per cent. on another rich man's estate of £1,000,000 is no relief to the poor; it is but to shift the burden of one rich man on to the shoulders of a richer man. No element of compassion for the poor enters into that; rather an element only of hatred and envy towards the rich, increasing with their riches, and culminating, when their riches are greatest, almost in confiscation. Graduated Taxation leaves the poor as they were; it merely disburdens the moderately well-to-do and burdens by so much the more the very well-to-do.

But that is by the way. What it imports to ask now is, not whether such a system is or is not just and ethically defensible, but whether it is good for Revenue; whether it is fiscally sound; whether it fills the Exchequer better than the system of ungraduated, undifferentiated taxation which levies the same rate all round above the limit of poverty.

The answer, I think, is that it may well do so provided the differentiations are mild and moderate; but that in the long run it will not do so if the differentiation be severe,

and especially if it proceed by long and perceptible steps—which is the case with the system adopted in this country.

It is a commonplace of Fiscal science that too high a Customs duty produces no more revenue, but less, than one just high enough, since it only encourages the smuggler; so that our financial history is full of instances where a judicious reduction of such duties has resulted in an increased receipt from them. In the long run the State can only get from the Taxpayer what he is willing to pay.

The temptation to the avoider or evader of taxation under our present system is slight to those who pay little, greater to those who pay more, greatest of all to those who pay most. The greatest encouragement is given to the greatest smuggler, by whom the Revenue loses most. And to add to the mistake, the greatest smuggler is precisely he who can smuggle most easily.

It is Death Duties to which differentiation has been most unsparingly applied, and in which it has recently been most exaggerated. Human nature is such, and the example of King Lear's case so apt and abiding, that a man will not willingly, even to save his heirs from exorbitant duties, divest himself of his possessions in his lifetime. This is especially true of men of moderate fortune, who by such a divestiture would deprive themselves of material enjoyments and amenities which they hold necessary to their "standard of living." But it is less true of men of great fortune; it is not true at all of men of the greatest fortune. They can divest themselves of much, and yet be unaffected thereby. A man with a fortune of £50,000, whose estate will pay $4\frac{1}{2}$ per cent. estate duty, may hesitate to part with any portion of it during his life; for the duty will only amount to £2250. But the man with £1,000,000, the 10 per cent. duty on which is £100,000, may part with a quarter of it to his children or his cousins and be none the worse; and by so doing he will save his estate, not only 10 per cent. on the £250,000, but also 1 per cent. on all the remainder, or £32,500 in all, without counting the saving on Legacy duty. And for every million more the temptation to do this is the greater, since the duty is the higher, going up to as much as 15 per cent. This, be it observed, is by

no means an unlawful evasion of the tax ; it is a perfectly lawful avoidance thereof, provided only that the millionaire has parted with his quarter of a million one year before his death. Nor is the case merely supposititious, imaginary, or unlikely. It has actually occurred. It is still actually occurring, and likely to do so more often as men of fortune and their able solicitors more completely realise the state of things.

Moreover, in consequence of the highly unscientific graduation by long steps instead of by imperceptible gradation, the most extraordinary temptations are held out to those whose fortunes are about and above the line of any of the maximum amounts at which the rate of duty changes. Here is an example :

Mæcenas has a fortune of £755,000, and being a patron of the Arts, he makes an annual allowance to his friend Horace the poet of £240, the interest of £6000 which he has set aside for that purpose.

But he reflects that on his death his estate of £755,000 will pay an estate duty (at 10 per cent.) of £75,500. He further reflects that, since he now gives to Horace the interest of £6000, and intends to leave him the principal, he will lose nothing by handing over the principal at once. He does so, and dies over a year later. Now how stands it ?

Mæcenas' estate, now £749,000, pays estate duty (not now at 10 but) at 9 per cent., or £67,410. So it pays £8090 less duty than it would have done had Horace not received the £6000. It has required graduated taxation to enable the Exchequer to offer to Mæcenas a bribe of £8090 in return for £6000 down given, not to the Exchequer, but to Horace, and to contrive for Mæcenas a method of saving £8090 by giving away £6000. It will be observed that in this case nothing is lost to anybody except the £8090 to the Exchequer.

The severity of the highest rates of Estate Duty has another effect. It renders the yield of the Duty much more dependent on the state of market prices than a lower rate would do. When, as is the fact, Consols have decreased in value 30 per cent., an Estate Duty of 15 per cent. loses three times as much on the depreciation as one of 5 per cent. would lose. Here, too, again the most is lost

on the biggest estates, the most both absolutely and relatively.

That graduation has been pushed beyond its profitable limits is becoming apparent. The number of rich men who divest themselves, in favour of their children, and even of others, of a notable portion of their estates is already great. It is certain to increase as solicitors and Counsel more fully realise the effect of such divestitures and apply them to the varying cases. Moreover, not merely lawful avoidance but unlawful evasion is encouraged, and must also increase with duties rising to a possible 26 per cent. And here too it is the largest estates and the biggest lumps of duty that are principally affected. The opportunities for evasion are now increased by the system of coupons payable to bearer, and it is certain that the facilities for investment abroad of their fortunes have been recently taken advantage of by some of the richest men in the country—certainly by some of those twelve men whom Mr. Lloyd George knows. Most Continental and American securities, be it observed, are “to bearer” and transferable by delivery.

The exaggerated taxation of the richest works in yet another way. For over a century—indeed, since the French Revolution—every absolute foreign sovereign, mindful of events, and never quite certain that he would not, like Louis Philippe, have some day to fly to England under the name of Smith, has invested much or all of his savings in England. So, too, have all the very rich men of the Continent. These eminent persons have for some time past no longer added to such investments, but have, on the contrary, withdrawn them in great sums—because they see the trend of British taxation towards confiscation, and are thereat alarmed.

ALARM.

The truth is that, as well by the Acts of 1907 as by many other of their acts and words, certain members of the present Government have bred deep alarm among all those possessed of property, have disinclined them to leave here their fluid capital, and have originated an unusual

desire rather to invest it in any foreign securities—Chinese, Chilian, Argentine, Japanese, Russian, or other—than in British. Everything moves but Consols, and these, in spite of cheap money, are and remain “flat.”

In these circumstances what will happen in case the Government seek to provide next year for their great needs by taxation of a more severely graduated kind reaching an even higher top rate than that now existing? What will happen is that the receipt from any such taxation may be less rather than more, and that in any case it will be disappointing, and exasperating.

It is not thus that our Finances can be improved. It is rather on the other side, by Retrenchment of Expenditure, a method not yet attempted, but which would yield rich results. The difficulty lies with the Departments. But it is the business of Governments to deal with Departments who always want too much.

With a total State and Local expenditure of over 300 millions a year, the yield of rates and taxes is approaching its limits, if it has not already reached them. Nor is there at present apparent such financial resource as would warrant us in expecting new taxes likely at once to meet acceptance and to sufficiently fill the Exchequer.

There remains only one other method whereby the needs of next year can be met—the method of adding to the Debt, either by increasing the Funded or Unfunded Debt, by raiding the Sinking Fund, by breaking faith as to the Terminable Annuities (all which virtually amount to the same thing), or by all these methods. If to this the Government have to come, new debt of any sort will not be contracted at a low rate. And in that event, moreover, Consols will be further affected, and we may see them next year far lower than the price of 80 which they have already once touched.

It seems only too likely that the Budget proposals of next year will involve the increase of Expenditure and of Debt; a consequent further injury to the National Credit; and also a further extension of the notion that the cost of the common service should properly be provided for by taxing only the richest.

That would be to fail all round: to fail in all pledges

of Parsimony ; to relapse into the ways of Waste, Debt, and Discredit ; to sacrifice Free-Trade to False Taxation ; and to lay the foundations of Protection in the ruins of False Finance.

In that case, not alone will the Determining Elector in the country be set for ever against the Government, but even its own supporters in Parliament may not improbably revolt. The end may well be that the attempt to raise the National Revenue by taxing mainly the rich may bring the fall of Mr. Asquith's Free-Trade Administration, and its replacement by a Protectionist Government pledged to raise that Revenue by taxing mainly the poor.

Convinced that Protection would ruin the country, and that False Finance is the road to Protection, I would avoid both.

It would be well that the Government and the people should consider of these things in due time.

WILBURY, SALISBURY,

1st *December*, 1908.



468961

Bowles, Thomas Gibson
National finance in 1908 and after.

EcPF
B7875nd

NAME OF BORROWER.

DATE.

University of Toronto
Library

DO NOT
REMOVE
THE
CARD
FROM
THIS
POCKET



